

Fiscal Note

Fiscal Services Division



SF 375 – Subdivided Property Taxation (LSB2238SV)

Analyst: Jeff Robinson (Phone: (515)281-4614) (jeff.robinson@legis.iowa.gov)

Fiscal Note Version – New

Description

[Senate File 375](#) relates to the assessment of property that has been subdivided for housing purposes but remains undeveloped.

Under current law, subdivided property is assessed as undeveloped property for five years (eight years in the case of certain property subdivided prior to January 1, 2011) or until the lot is built on, whichever occurs first. Current law also allows cities and counties to extend the reduced assessment beyond the five-year and eight-year limits if they choose.

This Bill strikes the city and county permissive language and provides that property acquired and subdivided for development will continue to be assessed for tax purposes as it was prior to its acquisition for development. Under provisions of the Bill, each subdivided lot will continue to be taxed as undeveloped land until a home is constructed on the lot.

Although the Bill prohibits refunds of prior property taxes paid, the language change may allow subdivided, but undeveloped property to revert from its current classification to the agricultural classification. This could occur if the property was already subdivided, and if any time limit that had allowed the property to be taxed at below-market value had expired so that the property would now be classified at a higher value and tax rate than that of agricultural property.

Assumptions

A detailed statewide inventory of taxed property in Iowa is not available. However, a property inventory of Polk County is available, and that inventory, along with average tax rate data calculated from Department of Management property tax rate and value files, was used as the basis for this estimate.

The per-lot tax calculation if affected lots are taxed at the agricultural property tax rate is as follows:

- There are 30,555 acres of agricultural property within the urban areas of Polk County, and the total assessed land value of the property is \$45.8 million (\$1,499 per acre).
- The agricultural rollback is currently 47.4996%, so the taxed value of an average acre of agricultural land within the urban areas of Polk County is \$712.
- The average property tax rate for urban Polk County agricultural property is \$33.25 per \$1,000 of taxed value. Of that \$33.25, \$5.40 represents the basic school levy.
- At a taxed value of \$712 per acre and a tax rate of \$33.25, a 0.3-acre lot taxed as agricultural property would be charged an annual property tax of \$7.10, of which \$1.15 represents the basic school levy.

The per-lot tax calculation if affected lots are taxed at the residential property tax rate is as follows:

- There are 4,228 acres of residential land within the urban areas of Polk County that are undeveloped (no building value) and have a lot size of at least 0.2 acres. The total assessed land value of the property is \$55.7 million (\$13,176 per acre).
- The residential rollback is currently 56.9391%, so the taxed value of undeveloped residential land within the urban areas of Polk County is \$7,502 per acre.
- The average property tax rate for urban Polk County residential property is \$42.23 per \$1,000 of taxed value. Of that \$42.23, \$5.40 represents the basic school levy.
- At a taxed value of \$7,502 per acre and a tax rate of \$42.23, a 0.3-acre lot taxed as residential property would be charged an annual property tax of \$95.05, of which \$12.15 represents the basic school levy.

Using calculations based on Polk County urban agricultural and undeveloped residential property, subdivided lots that remain taxed as agricultural property will pay \$87.95 less in property tax per 0.3-acre lot than they would if the lot was assessed at the market-based residential value. Of that \$87.95, \$11.00 negatively impacts the State General Fund through the State appropriation for school aid (due to the reduction in basic levy property tax revenue), and the remaining \$76.95 is reduced local government revenue.

Fiscal Impact

Under current law, property subdivided into lots that remains undeveloped is assessed as undeveloped property for a maximum of five or eight years. This Bill would remove the time limit so that subdivided property that remains undeveloped would be taxed as undeveloped property indefinitely.

The number of lots or acres that this Bill will benefit is unknown. Calculations indicate that for every 1,150 lots statewide, the property tax reduction will total \$100,000. Of that reduction, the property tax system will be reimbursed by \$13,000 in increased State General Fund-appropriated dollars through the State school aid formula, and local government revenue will decrease \$88,000.

Should the change be interpreted to allow subdivided, but undeveloped property that is now classified as something other than agricultural due to a time-limit expiration to revert back to the agriculture classification, there would be an additional fiscal impact of this Bill on State and local government finance. Polk County currently has 4,228 acres of urban property classified as residential, with a lot size of at least 0.2 acres and with no building value. If all this property reverted to the agricultural classification, the annual State General Fund appropriation for school aid would increase \$0.2 million and annual local tax revenue would decline \$1.2 million. There would be additional unknown State and local finance impact for rural Polk County property as well as the remaining 98 counties.

Sources

Polk County property inventory
Department of Revenue property tax rate and value files
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 5, 2017

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
